



Ofgem
10 South Colonnade
Canary Wharf
London. E14 4PU

By email: WMReform@ofgem.gov.uk

24/6/2022

Dear Sir/Madam,

Re: Location Pricing Assessment – Call for input following first stakeholder session (26th May 2022)

Introduction to RES

RES is the world's largest independent renewable energy company with operations across Europe, the Americas and Asia-Pacific. A British company, at the forefront of renewable energy development for 40 years, RES is responsible for more than 22GW of renewable energy capacity and energy storage projects worldwide. RES is active in a range of renewable energy technologies including onshore wind, offshore, solar and energy storage.

In the UK, RES has developed and/or constructed 1GW of operating wind generation capacity. We provide support services (AM and O&M) to a global operational portfolio of 9GW of renewable projects and energy storage for a range of third-party clients. We play a critical role in ensuring the provision electricity with our teams on the ground and in our 24/7/365 control centre responsible for keeping 10% (3GW) of the UK's operating renewable capacity running.

RES wants to play an active part in the UK's energy future, ensuring our projects contribute to decarbonising the energy system at least cost to the consumer, in line with RES' vision to be a leader in the transition to a future where everyone has access to affordable zero carbon energy. We therefore welcome this opportunity to respond to the Call for input on Locational Pricing Assessment and we are happy for our response to be published.

Executive Summary

The genesis of this review is referenced in Ofgem's workplan 2022/23¹ in point 5 'Full Chain Flexibility'. The Full Chain Flexibility Strategic Change Programme which was outlined in the Smart Systems and Flexibility Strategy pre-dates the Net Zero Strategy which announced a fundamental review of Electricity Market Arrangements (REMA). Considering the cost benefit of moving to locational marginal pricing will be a part of REMA and as such, it does not make sense for Ofgem to look at Locational Pricing in isolation when we know it will be a part of a whole systems review. To the extent that consideration of locational pricing is required at all; it should take place within REMA as part of a holistic review of market arrangements to enable net zero at least cost to consumers.

¹ <https://www.ofgem.gov.uk/publications/202223-ofgem-forward-work-programme>

However, if Ofgem decides that this review should go ahead separately to REMA, we have the following comments:

- In a review that is as fundamental to the market design debate as this, it is critical Ofgem is as transparent as possible. RES did not attend the first stakeholder session on the 26th May and requested to review the meeting slides. Ofgem should publish all slides and materials for sessions going forward on its website. In addition, this review needs to have a clear stakeholder engagement plan, with scheduled dates for workshops and expected input required from attendees. Given the importance of this work in market design examination, it is important to be transparent about any potential conflict of interest for parties involved in producing analysis.
- Step 1 of any change process is a clear definition of the problem that needs to be solved and this is absolutely critical to a potential change on the scale being considered here. We are concerned that this has not been done yet.
- We believe that a review of locational pricing needs to have very clear objectives. RES suggests that it is acceptable to use the Full Chain Flexibility objectives as a guide for this review, however at its core, this review needs to consider whether locational pricing would better facilitate meeting net zero or not. The implications of introducing locational pricing on net zero, and at what cost to consumers, needs to be an output of this review.
- Any market review needs to be based on a clear and transparent review of market design options.

At this stage, assuming that the objective of such a review is the facilitation of net zero at least cost to customers, RES struggles to see how the introduction of locational pricing, as has been presented by the ESO, could do anything other than introduce significant new market risk for investors.

In any market model, new transmission infrastructure is necessary and a no regrets option given the volumes of new generation we need to install to meet net zero. Texas is being used as a case study of successful implementation of clean energy expansion due to nodal pricing. However, this was critically dependent on additional key elements, principally pre-emptive investment in 3,500 miles of network upgrades providing almost 20GW additional capacity to connect remote Competitive Renewable Energy Zones to the big cities. Independent analysis shows that Texas nodal pricing did not solve constraints because "factors other than nodal prices are more likely drivers of utility-scale generation capacity investment location decisions". Unless in the UK all "other things are equal" with Texas, including boosting pre-emptive grid capacity investment to remove constraints and adopting a Texas-style planning system, the comparison as a predictor of success is invalid.

We are keen to engage further on this work as it develops, and more broadly in relation to the UK's transition to net zero. We would be happy to answer any further questions on our evidence or provide additional information if required.

Yours faithfully,

Kate Dooley
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Patrick Smart
Energy Networks Director, UK&I